



The Only Economist Worth Trusting is Named 'Hindsight'

Posted by [Pierluigi Oliverio](#) on Monday, September 13, 2010

Last Tuesday, the City Council had a study session on the upcoming Redevelopment Agency (RDA) budget. RDA funds are regulated by state law and are almost entirely spent on land and construction, similar to how bond monies are restricted. We have funded some limited city services in RDA and Strong Neighborhood Initiatives (SNI) areas (not citywide), such as anti-gang programs and code enforcement. The bulk of RDA funds have gone to capital project like the HP Pavilion, numerous museums, the convention center, parking garages, hotels, Adobe and facade grants as well as industrial projects in North San Jose and Edenvale. However, RDA also funded approximately \$70 million for SNI capital projects like community centers, parks, traffic calming, etc.

The larger discussion was about how we spend or do not spend the limited RDA funds after the State of California raided the funds last year and again this year. RDA funds are based on assessed property values in the merged RDA areas (Downtown, North San Jose, Edenvale). If those commercial and residential properties increase in value, that creates more tax increment dollars. If those values decline there is less. All 350 RDA agencies statewide are experiencing the same pain. As we know, property values have declined and may decline further depending on which economist you listen to.

San Jose RDA hires an outside economist every year to forecast future revenues for a third-party review. The economist has not always been accurate. The economist has projected higher tax revenues in years past which did not pan out. Economists do not have a crystal ball and economic conditions have not been this dire since the Depression, which makes future forecasting that much harder. We may consider a different economist next year however the current economist has already been paid so I do not see the need to spend more money and hire an additional economist. I would rather take the economist's number, cut them in half, and budget based on conservative numbers.

The main question for me is: "When revenues are uncertain, do we budget on the lower conservative numbers or the higher optimistic numbers?" I would prefer to do a budget on the lower numbers as it is easy to spend money but harder to constrain spending. The only economist I trust is "Hindsight," and we will only know the answer in the future.

The RDA laid off 20 percent of its staff last fiscal year and may have to do more layoffs this coming year from their current 72 employees. The RDA is the only city department that is non-union, so layoffs are done by the director and not necessarily by tenure. I believe that with limited funds, the scope of RDA should be narrowed to economic development which creates a tax base and net new employment. That may also mean refraining from issuing any new debt this year and next. Mayor Reed has suggested a mid year budget review for RDA so if revenues change, adjustments can be made.

I attended the ribbon cutting for the Brocade campus on Thursday. The Mayor knocked the ball out of the park with his comments on how federal law, state law and local regulations hinder job creation. In addition, Mayor Reed pointed out a simple economic lesson—that this country will grow the economy through exporting, and Brocade is a testimony to that as the majority of its technology products are exported overseas.

The RDA spent \$4 million to retain Brocade and the jobs in San Jose at a new campus at Highway 237 and North First Street. I believe strategic investments are good. We cannot always predict which company will succeed, but we know these investments reap increased revenue for the city of San Jose.

Finally, [here is a table from Mayor Reed's RDA budget message last year](#) that shows how RDA economic development is better for city tax revenues and ongoing jobs than RDA affordable housing. The chart shows the increased property tax revenues and both direct and indirect job increase.

Do you plan your household budget on your net paycheck or on expectations of increased wages and/or return on investments?

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